



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT:** Per Capita Sales Tax

**DATE:** May 23, 2006

Approved /s/

Date 05/26/06

## INFORMATION

At the opening session of the 2006-2007 Budget Study Session on May 8, Councilmember LeZotte was interested in receiving additional information pertaining to the City of Santa Clara Per Capita Sales Tax compared with that of the City of San Jose. Specifically she was surprised that consumer sales tax generation in Santa Clara was twice that of San Jose. The Councilmember also requested clarification about the composition of San Jose's sales tax revenues.

### **Comparison of San Jose and Santa Clara per capita sales tax generation**

The three interrelated factors which significantly influence the levels of sales tax generation are 1) City population, 2) income levels and 3) land use/leakage. The first two of these are largely outside the control of the City of San Jose and for this reason Staff has focused on addressing the final element.

A city's population size is often a major factor in the size of Per Capita Sales Tax. As can be seen in the table below, many communities with large populations have lower per capita sales.

### *Per Capita Consumer Sales Tax Larger in Smaller Communities, Sorted by Sales Tax*

Selected Cities	Population 2005	Consumer Sales Tax Generation Per Capita
Santa Clara	109,100	\$147
Campbell	38,145	\$132
San Diego	1,305,736	\$102
Fresno	464,726	\$101
Statewide	36,810,358	\$93
Santa Clara County	1,759,585	\$92
Sacramento	452,959	\$81
<b>San Jose</b>	<b>944,857</b>	<b>\$77</b>

A city's population size is also a factor in terms of revenue per capita as illustrated in the next table.

*Per Capita Revenue in Selected Communities, Sorted By Population*

Selected Cities	Population 2005	Total Revenue Per Capita	Sales Tax Generation Per Capita
Palo Alto	61,431	\$517	\$192
Mountain View	71,747	\$403	\$110
Santa Clara	109,100	\$480	\$147
Sunnyvale	132,555	\$354	\$77
Sacramento	452,959	\$323	\$81
<b>San Jose</b>	<b>944,857</b>	<b>\$254</b>	<b>\$77</b>
San Diego	1,305,736	\$305	\$102
Los Angeles	3,934,714	\$293	\$66

At least locally, it appears that in organizing themselves in an exclusive fashion politically, those communities with fewer residents also tend to have higher per capita income. This leads to the second explanation for the difference between San Jose and Santa Clara's Per Capital Sales Tax figures: income.

It stands to reason that communities with more income would be able to spend more on consumer goods. This appears to be the case in comparing San Jose with Santa Clara. However, the 19% higher Per Capita Income in Santa Clara doesn't explain the nearly 100% higher consumer sales tax revenue in Santa Clara.

*Santa Clara Per Capita Income Larger*

	San Jose	Santa Clara	Percentage Difference
Median Family Income	\$74,800	\$77,200	3.2%
Per Capita Income	\$26,700	\$31,800	19%

The final factor which contributes to the difference in sales tax generation between Santa Clara and San Jose is the way that the land is allocated in each community. San Jose's traditional role as a bedroom community has led to a higher percentage of non-public/open space lands being dedicated to residential uses rather than sales tax generating uses. Further, since the residential component is larger in San Jose the retail services available per unit are smaller despite the near even percentage allocation to commercial uses between the cities.

*Santa Clara Land Use Favors Business and Revenue*

	San Jose	Santa Clara
Residential	72%	53%
Commercial	8%	9%
Industrial	20%	39%

In summary, the Per Capita figures highlighted at the Mayor's budget message support the findings from Bay Area Economics Retail Study of San Jose showing that there is a sales tax leakage into both San Mateo and Santa Clara Counties relative to San Jose. The findings show that San Jose has the capacity to support additional retail spending by San Jose residents (Consumer Sales Tax).

City development policies in Downtown and North San Jose which employ smart growth techniques to improve densities together with recommendations to carefully consider any conversion of additional land to residential uses will support greater employment opportunities for San Jose residents and reduce retail leakage to neighboring communities.

### **Composition of San Jose sales tax revenues**

The City classifies sales tax into two broad categories, Consumer Sales Tax and Business to Business. Consumer Sales Tax categories are those that are driven by individual consumers. Business-to-Business sales traditionally reflect the sale of goods from one business to another.

#### Consumer Sales Tax

##### General Retail

-Department, Drug, Apparel, Furniture Stores

##### Food Products

-Restaurants, Food Markets, Liquor Stores

##### Transportation

-New and Use Car Sales, Service Stations

#### Business to Business Sales Tax

##### Construction

-Building materials

##### Business to Business

-Office & Electronic Equipment, Energy Sales, Business Services

In the presentation on the economic outlook, per capita sales tax revenue was calculated using only the Consumer Sales tax category. When compared with other cities throughout the County, San Jose's portion of Consumer Sales Tax relative to its total sales is 59%. What this suggests is that San Jose has a broad diversity of sales tax generating businesses and that San Jose does not rely on the traditional ratio of Consumer Sales tax revenue that most other cities in the county do.

Selected Cities	Ratio Consumer Sales Tax to Total Sales Tax
Fresno	72%
San Diego	70%
Sacramento	65%
Campbell	63%
<b>San Jose</b>	<b>59%</b>
Statewide	56%
Santa Clara	47%
Santa Clara County	43%

/s/  
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